HOUSING MARKET INSIGHT
Saskatoon CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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"Household growth in the Saskatoon and Regina CMAs is forecast to remain fairly strong over the next few years through 2021, which should help drawdown inventories and support new housing demand in both markets. However, relatively weaker economic conditions entail a more moderate pace of housing construction than during the boom phase of 2012 and 2013."

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The link between demographics and housing construction: A look at the Saskatoon and Regina housing markets

Homebuilding activity is constantly being influenced by demand from households for new housing units. In the long term, new household formation via population growth tends to drive housing construction. Over the 20-year period from 1996 to 2016, household growth and housing construction in the Saskatoon and Regina Census Metropolitan Areas (CMAs) moved relatively in sync for the most part. However, in the years between 2011 and 2016, housing completions exceeded household formation, as strong migratory increases and economic growth in 2012 and 2013 influenced builders' demand expectations. This resulted in rising levels of new housing inventory in both single-detached and multi-family markets. Looking ahead, what impact will household growth have on the new home market in both Saskatoon and Regina leading up to 2021?

Household formation drives homebuilding activity

In this report, household formation has been derived from the net change in the number of households between census years, with the most recent comparison being the 2011-2016 period. Many studies have shown that net household formation is a useful benchmark to gauge residential construction activity over longer periods[1]. A greater part of household growth can be traced back to population growth. In general, as the population grows, more households are formed[2], depending on the availability of housing units

at affordable prices. With more households forming over time, the housing stock will need to increase as well[3], typically through new construction.

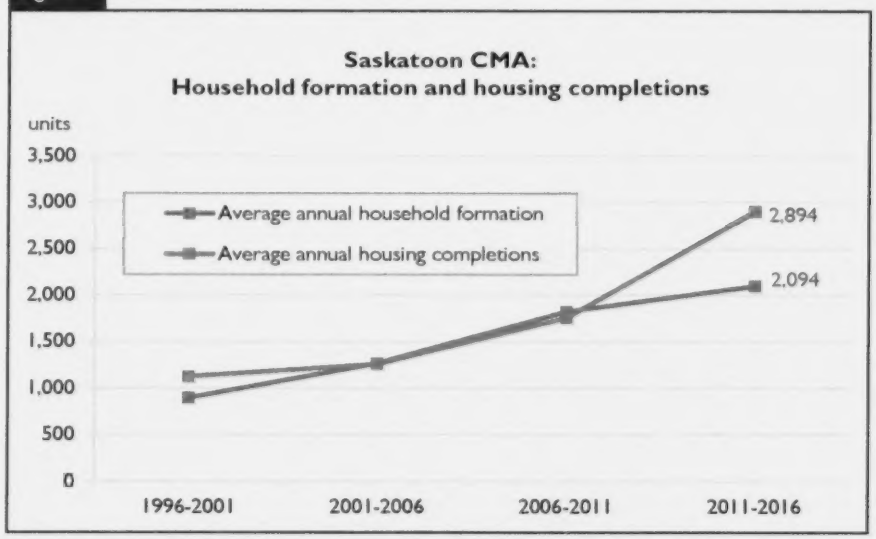
New housing completions are the primary means by which the housing stock expands. However, housing supply can also increase through conversions of non-residential structures into residential homes or the creation of ancillary accommodation within existing housing units.

Housing supply has exceeded household growth in recent years

Figures 1 and 2 highlight the long-term relationship between housing construction and net household formation in the Saskatoon and Regina CMAs. In both markets, housing construction and household growth moved in sync between 1996 and 2011, following a steady upward trajectory. However, this relationship diverged during the 2011-2016 period when total residential construction increased at a much faster pace than household formation. This was particularly the case during the economic boom in 2012 and 2013.

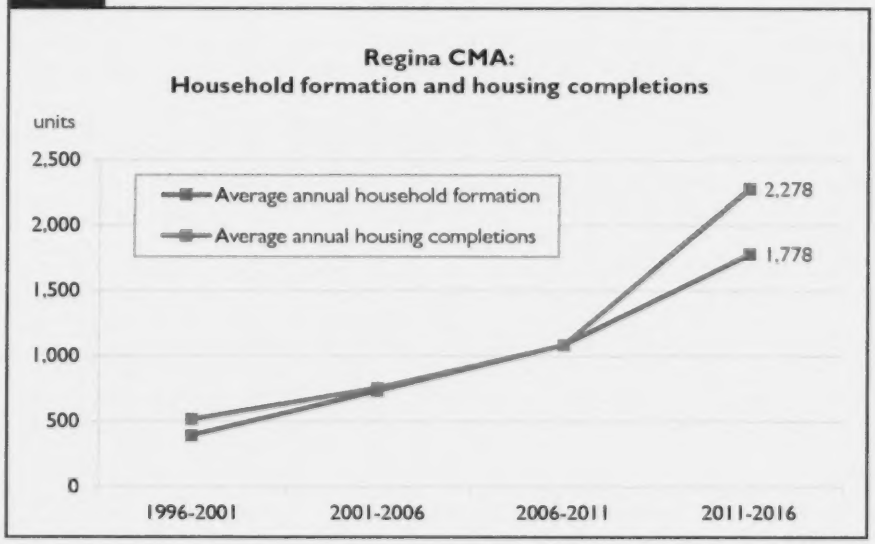
From a long-term point of view, there were a total of 30,340 households formed in the Saskatoon CMA over the 20-year period from 1996 to 2016, based on Census Canada data. By contrast, 35,086 housing completions were added to supply over the same period. In the Regina CMA, a total of 19,925 households were formed over the past two decades, while the number of housing completions was much higher, at 23,131 units.

Figure 1



Source: CMHC (Starts and Completions Survey), CMHC calculations, adapted from Statistics Canada (Census of Canada)

Figure 2



Source: CMHC (Starts and Completions Survey), CMHC calculations, adapted from Statistics Canada (Census of Canada)

Table 1 groups the data into five-year periods. As indicated, the rate of household growth in both CMAs was highest between 2011 and 2016. During this period, there were on average 2,094 and 1,778 households[4] formed annually in Saskatoon and Regina, respectively. On the other hand, there were on average 2,894 annual housing completions in Saskatoon and 2,278 in Regina.

Potential reasons for the divergence between 2011 and 2016

There are potentially a number of reasons why housing completions surpassed net household formation in both Saskatoon and Regina during the 2011-2016 period:

- In general, builders respond to market signals such as changes in home prices, sales, vacancy rates, showroom traffic and inventories, which reflect economic conditions and demographic requirements. In some cases, changes in these market signals can happen faster than builders are able to adapt their production targets in the short-run. The economic boom during the early part of the 2011-2016 period, combined with new neighbourhood expansion efforts in both cities, likely contributed to expectations of higher demand for new housing units than materialized during the economic downturn in 2015 and 2016.
- Although actual estimates of secondary residences in Saskatoon and Regina are unavailable, it is generally understood that households can own and occupy more than one dwelling, particularly during periods of increasing economic wealth. As households took up second homes or cottages for vacation, additional housing units would have been needed to meet demands by other households for primary residences[5].
- A gradual shift in household demand towards lower-priced dwelling types such as townhouses and condominium apartments resulted in an increase in multiple-unit construction in both Saskatoon and Regina CMAs over the past few years. In addition, a high influx of immigrant households which tend to rent multi-family type dwellings upon first arrival, likely supported this trend (figure 3).

Table 1 - Net household formation and housing completions, annual averages and cumulative totals

	Saskatoon CMA	
Period	**Net household formation**	**Housing completions**
	Annual averages	
1996-2001	891	1,119
2001-2006	1,263	1,254
2006-2011	1,820	1,751
2011-2016	2,094	2,894
	Cumulative totals	
1996-2016	30,340	35,086
	Regina CMA	
Period	**Net household formation**	**Housing completions**
	Annual averages	
1996-2001	392	513
2001-2006	731	753
2006-2011	1,084	1,082
2011-2016	1,778	2,278
	Cumulative totals	
1996-2016	19,925	23,131

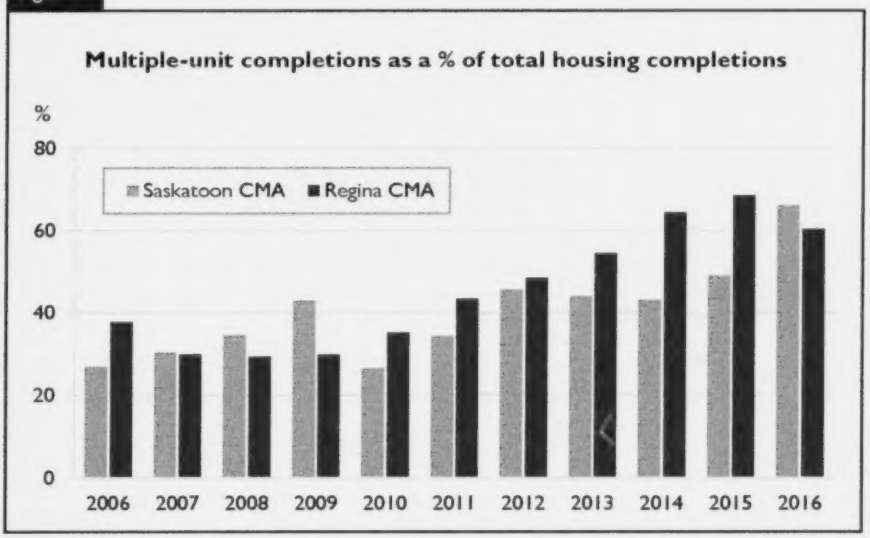
Source: CMHC, adapted from Statistics Canada (Census of Canada)

Sources of household growth

Long-term growth in households can be attributed to a combination of factors:

- Population growth – a faster pace of population growth results in more households forming, all things being equal.
- Age of population – as the share of the population in older age groups rises, the aggregate headship rate tends to increase as well. This is because older age groups are more likely to form households compared to younger age groups who often tend to share accommodation in order to mitigate shelter costs[6].

Figure 3



Source: CMHC (Starts and Completions Survey)

- Social and economic factors – household formation can be influenced by attitudes towards marriage, divorce and separation. As well, the rate of income growth and changes in mortgage rates can impact housing preferences[7].

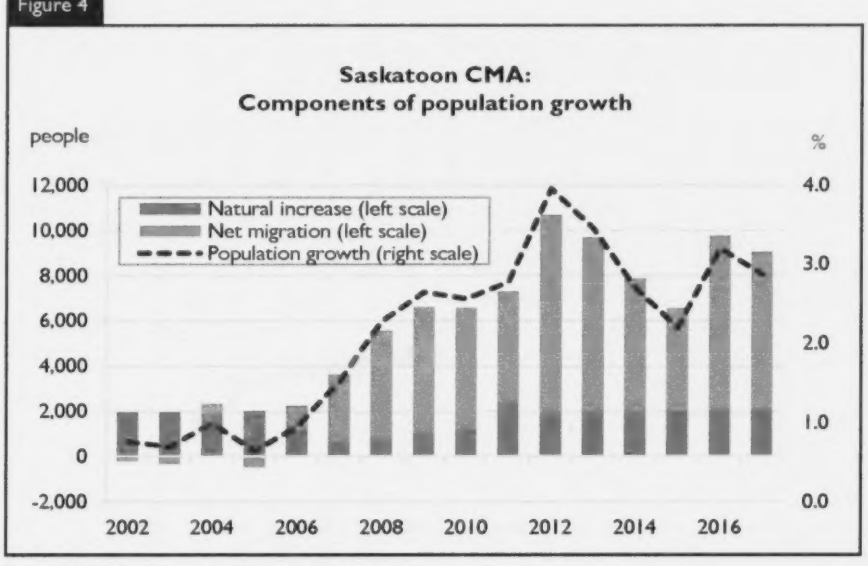
Population growth is the primary driver of household formation

A greater part of household growth in the Saskatoon and Regina CMAs over the past decade can be attributed to strong population growth. Saskatoon had the third fastest population growth between 2006 and 2011 at 11.5%, after Edmonton's 12.1% and Calgary's 12.6%. While Regina ranked 11th with a population growth of 7.9%, this was still faster than the national average of 5.9%. The subsequent 2011-2016 period saw the same top three CMAs leading population growth in Canada, with Calgary at 14.6%, Edmonton at 13.9% and Saskatoon at 12.5%. This time, Regina moved up the ranks as well, with the fourth fastest population growth of 11.8%. These significant gains in population have contributed to household growth in both Saskatoon and Regina CMAs over the past decade and in recent years.

Net migration is the largest source of population growth

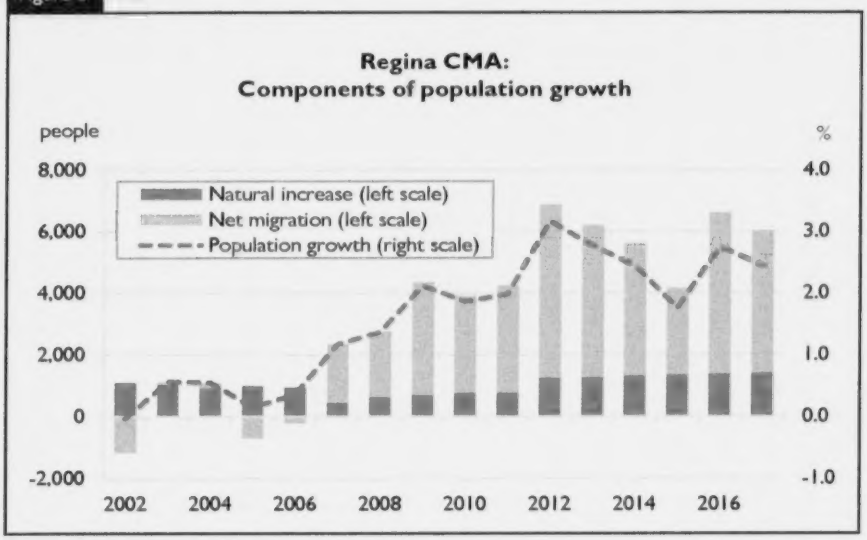
There are two main sources of population growth: natural increase, which captures births minus deaths; and migratory increase, when there are more people coming to settle in an area than are leaving. Both Saskatoon and Regina have relatively young populations and higher fertility rates than most Canadian cities. This has contributed to steady natural growth of their populations over the past several years. However, since 2006, population growth in these two CMAs has been largely supported by an influx of migrants, particularly from international sources. In 2016, immigrants constituted around 16% of each centre's total population, double the proportion in 2006[8]. Of the 47,940 recent immigrants that settled in Saskatchewan between 2011 and 2016, 18,585 landed in Saskatoon and 16,195 arrived in Regina[9]. This represents over 72% of all immigrants that arrived in the province during this period.

Figure 4



Source: Statistics Canada, CMHC calculations

Figure 5



Source: Statistics Canada, CMHC calculations

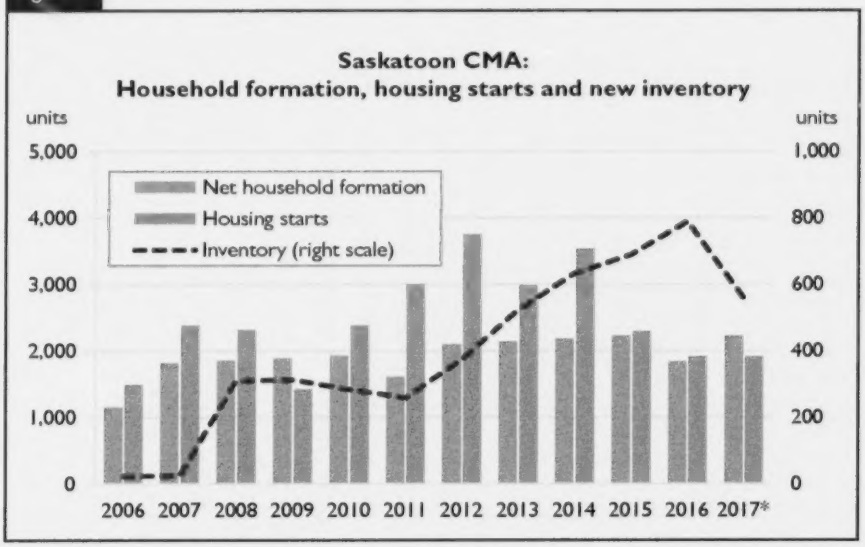
As Saskatchewan's two largest urban centres, Saskatoon and Regina benefitted from a resource-intensive provincial economy that attracted a lot of workers in the early part of this decade before the oil price-led economic slowdown in the latter part of 2014[10]. While net interprovincial migration has since turned negative under relatively weaker economic conditions, this has been more than countered by continued gains in international migration. All told, total net migration remains an important driver of housing demand in both cities via its contribution to population growth and household formation (see figures 4 and 5).

Short-run market imbalances: demand vs supply

Gaps between net household formation and homebuilding activity occur regularly over the short-term when demand and supply for new housing units are in disequilibrium. These short-term imbalances are largely reflected in the changes in the inventory of completed and unsold housing units. In fact, CMHC's Housing Market Assessment (HMA)[11] framework has detected strong evidence of overbuilding in the Saskatoon and Regina markets since 2014, primarily due to the multiples sector. All else equal, when housing starts exceed household demand, new housing inventory increases. The cumulative effect of consecutive years of excess housing supply over household formation can keep inventory levels elevated long after a reduction in housing starts has occurred. As well, weak economic conditions can slow the market's ability to absorb excess inventory of housing units. This appears to be the case in the Saskatoon market during the latter part of the 2011-2016 period when housing starts declined to match the slowdown in household formation, but inventory levels climbed to a historical high. Nonetheless, stable housing starts and stronger household growth precipitated a decline in new housing inventory in 2017 (figure 6).

By comparison, the reduction in Regina's housing starts below household formation during the latter part of the 2011-2016 period resulted in a decline in the inventory of completed and unsold ownership and condominium housing units.

Figure 6



Source: CMHC calculations, adapted from Statistics Canada (Census of Canada)
* 2017 annual household projection based on growth rates from CMHC's Potential Housing Demand (PHD) model

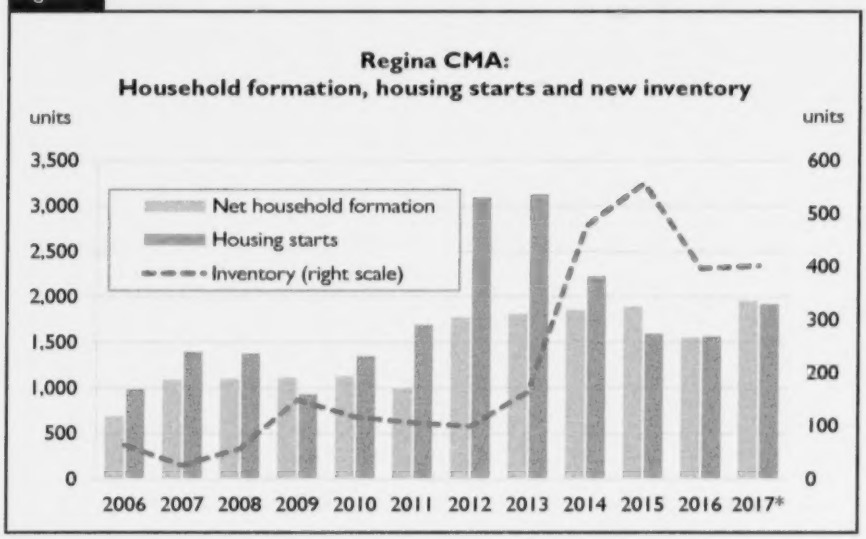
That said, significant gains in housing starts in 2017 matched the growth in households, thus keeping inventory levels relatively unchanged for the year (figure 7).

Household growth in the 2016-2021 period

CMHC's research on long-term household growth projections for Canada, provinces and territories identifies Saskatchewan as one of the provinces that will continue to experience positive household growth over the next couple of decades[12]. Additionally, and specific to Saskatoon and Regina, our in-house Potential Housing Demand (PHD) model[13] points to strong demographic growth through 2021, which will support homebuilding activity. Based on the model's projected growth rates, the average annual households formed between 2016 and 2021 will increase to 2,225 in Saskatoon and to 1,956 in Regina.

In the years ahead, population growth will remain a key driver of household formation in Saskatoon and Regina, which will continue to feed demand for new housing units. Already, Saskatoon and Regina had the fastest population growth among all CMAs in Canada between 2016 and 2017, at 2.8% and 2.4%, respectively. Overall, continued household growth over the next several years is expected to help drawdown new housing inventories in both markets. This focus on bringing down inventory levels entails a more moderate pace of housing starts than during the preceding 2011-2016 period, which should help narrow the gap between household formation and housing construction. Nonetheless, ongoing changes in economic conditions in both markets will play an important role in shaping housing demand expectations and homebuilding activity during each year.

Figure 7



Source: CMHC calculations, adapted from Statistics Canada (Census of Canada)
* 2017 annual household projection based on growth rates from CMHC's Potential Housing Demand (PHD) model

ENDNOTES

[1] Lin, M. (2016). Long-term Household Growth Projections 2015 Update. Ottawa. Retrieved from: https://www03.cmhc-schl.gc.ca/catalog/productDetail.cfm?lang=en&cat=196&itm=9&fr=1518803085026

[2] There isn't sufficient information on exactly how many households form or dissolve during a given period. Household estimates show only the total number of households on given dates, in this case using census data, from which net changes can then be derived.

[3] In the short-term, households can occupy vacant housing units, but for household formation to continue over the long-term, the housing stock must also grow. At any given moment, the housing stock comprises principal residences, secondary residences, and vacant (unoccupied) dwellings. In this report, the number of households equals the number of principal residences.

[4] It is important to note that estimates of average annual household formation obtained by taking the difference between census household counts are approximations. It is therefore possible that household growth derived in this way is understated by the extent of potential census undercounts.

[5] Principal residences are the homes where households normally live; hence, the number of households is used synonymously with the number of principal residences. This allows for comparisons, as seasonal dwellings, such as summer cottages, hunting and ski cabins, trailers and boat houses, are excluded from CMHC's Starts and Completions Survey. Dwellings enumerated are those designed for year-round occupancy.

[6] Lewis, R. (2008). 2006 Census Housing Series: Issue 1—Demographics and Housing Construction. Ottawa: Retrieved from: https://www.cmhc-schl.gc.ca/odpub/pdf/65845.pdf?fr=1479473969831.

[7] Lewis, R. (2013). National Household Survey Housing Condition Series: Demographics and Housing Construction, 1971-2011. Ottawa: Retrieved from: https://www.cmhc-schl.gc.ca/odpub/pdf/67972.pdf?fr=1475084056630.

[8] Statistics Canada. 2017. Focus on Geography Series, 2016 Census. Statistics Canada Catalogue no. 98-404-X2016001. Ottawa, Ontario. Data products, 2016 Census.

[9] Statistics Canada. 2017. Saskatoon [Census metropolitan area], Regina [Census metropolitan area], Saskatchewan and Saskatchewan [Province] (table). Census Profile. 2016 Census. Statistics Canada Catalogue no. 98-316-X2016001. Ottawa. Released November 29, 2017.

[10] Migrants may also be drawn to cities for reasons other than job prospects, for example, to destinations that are attractive to retirees or to immigrants. Among immigrants, the presence of family or friends is an important influence. See Longitudinal Survey of Immigrants to Canada: A Portrait of Early Settlement Experiences, Statistics Canada Catalogue no. 89-614-XIE. Ottawa: Statistics Canada, 2005, pp. 19-21. https://www.statcan.gc.ca/pub/89-614-x/89-614-x2005001-eng.pdf (February 24, 2011).

[11] See detailed reports at: https://www03.cmhc-schl.gc.ca/catalog/productList.cfm?cat=192&lang=en&fr=1522767507560.

[12] See Canada Mortgage and Housing Corporation, Long-term Household Growth Projections—2015 Update, Research Highlight, Socio-economic series (Ottawa: CMHC, March 2016). https://www03.cmhc-schl.gc.ca/catalog/productDetail.cfm?lang=en&cat=196&itm=9&fr=1520871406294.

[13] CMHC's Potential Housing Demand (PHD) model uses historical demographic data to project the future pace of average annual household formation. Demographic data inputs have been updated to reflect the 2016 census data.

DEFINITIONS

Net household formation

Net household formation, also referred to as household formation and household growth, is the change in the number of households between two years.

Headship rate

An age-specific headship rate is the rate at which people in a given age group form households, and is calculated as the number of primary household maintainers in that age bracket divided by the total number of people in the same age bracket.

Migratory increase, migratory balance or net migration

Migratory increase is the difference between the number of people who settle in an area and the number of people who leave that same area during a given period. Migratory increase is the sum of net interprovincial migration (migration between provinces), net intraprovincial migration (migration between regions of the same province), net international migration (immigration minus emigration), Canadians returning to Canada and temporary (non-permanent) residents.

Natural increase

Natural increase is the difference between the number of births and the number of deaths during a given period. A positive natural increase over a certain period means that the number of births is higher than the number of deaths. If the number of deaths is higher than the number of births, the natural increase is negative.

Housing start

A housing start is defined as the beginning of construction work on the building where the dwelling unit will be located, usually when the concrete has been poured for the whole of the footing around the structure, or an equivalent stage where a basement will not be part of the structure. Housing starts are enumerated as part of CMHC's monthly Starts and Completions Survey. Building permits are used to determine the location of construction sites, which are visited to confirm the stage in the construction process.

Housing stock

Total annual dwelling units by type of dwelling and tenure. This can also be estimated from annual flows of housing completions, conversions and demolitions.

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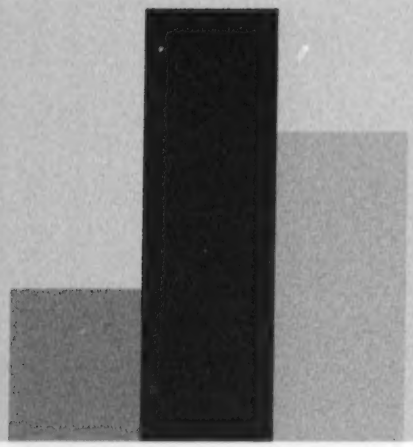

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